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**1. KISHI'S TRIP TO US NOW VIEWED MORE FAVORABLY
IN JAPAN**

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Japanese prime minister Kishi was met at the Tokyo airport by the largest crowd ever to greet a returning Japanese dignitary. The general Japanese reaction is considerably more favorable than indicated by the newspapers. Influential political commentators are in nearly unanimous agreement that Kishi achieved a moderate but nevertheless real success; that the public as a whole recognizes this; and that Kishi's own prestige has been enhanced greatly by the trip.

The press continues to express doubts and reservations as to what Kishi actually accomplished, but seems to agree that he performed a difficult and trying task very well. The embassy comments that the defensive tone of the papers suggests that they are somewhat embarrassed by their earlier excessive criticism and also sense that they have not been in line with "national sentiment" on the trip. The embassy notes that even Kishi's critics have recognized that he probably has no peer among present-day Japanese leaders in the complicated business of "getting along with Americans."

2. GARCIA'S POSITION AS PHILIPPINE PRESIDENTIAL CONTENDER WEAKENING

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There are increasing signs that Philippine president Garcia is running into serious difficulties in his fight to gain the Nacionalista Party's nomination to succeed himself. Party chairman Rodriguez reportedly is encouraging other Nacionalista aspirants to run in the hope of improving his own prospects for candi-

dacy by splitting party ranks at the convention scheduled for 27-28 July. Party leaders are said to be concerned over the lack of popular enthusiasm for Garcia evident during recent campaign tours.

Influential senator Laurel, whose son appears the strongest contender for the vice-presidential nomination, states he is pessimistic over Garcia's chances for election in November against the probable Liberal Party slate of Yulo and Macapagal. Laurel, who asserts that the Nacionalistas now have less than 50 percent of their vote-drawing power in 1953, says that his son will withdraw as a vice-presidential candidate and that he himself will announce his candidacy for the presidential nomination on the Nacionalista ticket if it appears at the convention that Garcia cannot win the nomination. Rejection of Garcia would deepen the party's cleavages and probably cause him to run as an independent.

Meanwhile, leaders of the Liberal Party, which is now scheduled to convene on 20-21 July, are considerably heartened by the Nacionalistas' internal difficulties, and their optimism is reflected in increasing predictions of success in November.

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3. INDIAN ECONOMIC SITUATION DETERIORATING RAPIDLY

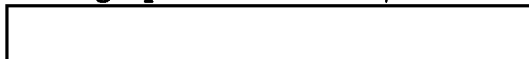
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The Indian economic situation is deteriorating rapidly and the country is facing a crisis which will test its political stability to the utmost, according to Ambassador Bunker. He states that the tension caused by this development has recently become noticeable among government leaders in New Delhi.

Despite import restrictions imposed late in 1956, which have reduced consumer goods imports sharply, the foreign exchange reserves--which are falling by nearly \$20,000,000 a week--are only about \$155,000,000 above the \$840,000,000 required for currency backing. The government fears that any reduction below this level will start a financial panic and cause a flight of capital. However, it apparently has decided it must take this risk, as the value of outstanding letters of credit will cause a continued foreign exchange drain for six to ten months.

In a further attempt to stem the foreign exchange decline, the government on 1 July slashed imports even more drastically. While New Delhi recognizes that these new restrictions will cause unemployment as well as further inflation, it believes it must continue its program of rapid industrialization if India is eventually to overcome its economic problems. Therefore, Finance Minister Krishnamachari will probably try, during his planned trip to the United States this autumn, to fill a large part of India's \$1.2-1.3 billion foreign exchange gap.



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